

Klacking Township
Ogemaw County, Michigan
Financial Report
With Supplemental Information
March 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name KLACKING TOWNSHIP	County OGE MAW
Audit Date 3/31/05	Opinion Date 7/19/05	Date Accountant Report Submitted to State: 9/26/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) ROBERTSON & CARPENTER, CPAs, LLP			
Street Address 103 E MAIN STREET	City ROSE CITY	State MI	ZIP 48654
Accountant Signature <i>Robertson & Carpenter, CPAs, LLP</i>		Date 9/26/05	

KLACKING TOWNSHIP

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Rodney C. Robertson, CPA
Robert J. Carpenter, CPA

ROBERTSON & CARPENTER, LLP
CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 69 • 103 E. Main Street • Rose City, Michigan 48654
Phone (989) 685-2411 • Fax (989) 685-2412
Other office: Mio, Michigan

INDEPENDENT AUDITOR'S REPORT

Township Board
Klackings Township
Ogemaw County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Klacking Township as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Klacking Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Klacking Township as of March 31, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of April 1, 2004.

The board's discussion and analysis and budgetary comparison information on pages 3 through 8 and pages 25 through 27 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Klacking Township's basic financial statements. The accompanying other pages of supplementary information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robertson & Carpenter, LLP

Robertson & Carpenter LLP
Certified Public Accountants
July 19, 2005

Management's Discussion and Analysis

As management of Klacking Township (the "Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2005.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$667,775 (*net assets*). Of this amount, \$467,909 (*unrestricted net assets*) may be used to meet the Township's ongoing obligations
- The Township's total net assets increased by \$68,722.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$445,716, a decrease of \$58,724 in comparison with the prior year. The General Fund balance is \$392,294 at March 31, 2005, 88% of the total fund balances. The fund balance in Road Fund is \$53,422. The fund balance in the Fire Fund is \$-0-.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$392,294 or 107% percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *Government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., accrued interest payable).

Both of the Government-wide financial statements present functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the Township include general government, public safety, public works, and recreation and culture. The Township has no business-type activities as of and for the year ended March 31, 2005.

The Government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the Government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a Township's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund and Fire Fund.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the General Fund, Road Fund and Fire Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 11-12 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are *not* reflected in the Government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 14-15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-24 of this report.

Government-wide Financial Analysis

[Because this is the first year of implementation of Governmental Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of Township-wide data will be presented.]

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceeded its liabilities by \$667,775 at the close of the most recent fiscal year.

A portion of the Township's net assets (22%) reflects its investment in capital assets (e.g., infrastructure, land, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Township's Net Assets

	Governmental Activities
Current and Other Assets	\$ 524,459
Capital Assets, Net	352,983
Total Assets	\$ 877,442
Current Liabilities	3,128
Long-term Liabilities Outstanding	206,539
Total Liabilities	\$ 209,667
Net Assets:	
Invested in Capital Assets, Net of Related Debt	146,444
Restricted	53,422
Unrestricted	467,909
Total Net Assets	\$ 667,775

The Township's net assets increased by \$68,722 during the current fiscal year. Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$36,499 or 7%, during the fiscal year ended March 31, 2005.

Township's Changes in Net Assets

	<u>Governmental Activities</u>
Revenue:	
Program Revenue:	
Charges for services	\$ 4,601
Operating Grants and Contributions	297
General Revenue:	
Property Taxes	115,515
State-Shared Revenues	49,851
Interest Earnings	5,436
Other	2,590
	<hr/>
Total Revenue	\$ 178,290
Expenses:	
General Government	\$ 65,009
Public Safety	18,813
Public Works	20,486
Recreation and Culture	900
Interest on Long-Term Debt	4,360
	<hr/>
Total Expenses	\$ 109,568
Increase in Net Assets	68,722
Net Assets, Beginning of Year	<hr/> 599,053
Net Assets, End of Year	\$ <u>667,775</u>

Governmental activities. The Township's total governmental revenues increased by \$6,705 from last fiscal year. This was primarily attributed to than increase in property tax revenue of \$8,071. Other financing sources included an installment purchase agreement of \$228,456 to finance the construction of a new Township hall. Expenses increased by \$344,050. The increase was attributable to capital outlay expenditures totaling \$339,282 for road improvements and construction of a new township hall.

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$445,716, a decrease of \$58,724 in comparison with the prior year. The General Fund portion of the fund balance is \$392,294, which is available for spending at the Township's discretion. The remainder of fund balance is in the Road Fund, available for expenditures on Township roads.

The general fund is the principal operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund was \$392,294. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The entire General Fund balance is unreserved and represents approximately 107% of total general fund expenditures.

The fund balance of the General Fund decreased by \$35,519 during the current fiscal year.

The fund balance of the Road Fund decreased by \$23,205 during the current fiscal year.

The fund balance of the Fire Fund remained unchanged during the current fiscal year.

General Fund Budgetary Highlights

The Township's budgets are prepared in accordance with Michigan Law. The most significant budgeted fund is the General Fund. The general fund budget was not amended during the year.

Capital Asset and Debt Administration

Capital assets. The Township's investment in capital assets for its governmental activities as of March 31, 2005, amounted to \$352,983 (net of accumulated depreciation). Investment in capital assets includes land, infrastructure, vehicles and equipment. Additions totaled \$339,282 for the fiscal year. Building additions were \$239,802 and infrastructure additions were \$93,585.

Township's Capital Assets (net of depreciation)

Land	\$	14,175
Land improvements		3,886
Infrastructure		91,635
Buildings and improvements		238,582
Furniture and Equipment		4,705
		<hr/>
Total	\$	<u>352,983</u>

Additional information on the Township's capital assets can be found in note 5 on pages 21-22 of this report.

Long-term debt. The Township currently has one installment loans with a balance of \$206,539. The loans were used in the current fiscal year to finance the construction of a new Township hall.

Factors Bearing on the Township's Future

The following factors were considered in preparing the Township's budget for the 2005-2006 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in the economy. For 2004-2005, the Township received \$52,216 in state shared revenue, representing 49% of the revenues in the General Fund. The amounts of state shared revenues for future periods are uncertain and will affect the Township's budgets. Our budgets were prepared with these factors in mind and will need to be revised as needed.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Klacking Township
Supervisor's Office
405 N Campbell Road
West Branch, Michigan 48661

Klacking Township
Statement of Net assets
March 31, 2005

	<u>Governmental Activities</u>
Assets	
Cash (Note 3)	\$ 429,771
Accounts receivable	70
Due from governmental units	17,726
Investment in joint venture (Note 10)	76,892
Capital assets-net (Note 5)	<u>352,983</u>
Total assets	<u>877,442</u>
 Liabilities	
Accounts payable	1,259
Accrued and other liabilities	1,869
Noncurrent liabilities (Note 7):	
Due within one year	15,230
Due in more than one year	<u>191,309</u>
Total liabilities	<u>209,667</u>
 Net Assets	
Invested in capital assets, net of related debt	146,444
Restricted:	
Road Fund	53,422
Fire Fund	-
Unrestricted	<u>467,909</u>
Total net assets	<u>\$ 667,775</u>

See accompanying notes

Klacking Township
Statement of Activities
Year ended March 31, 2005

Functions/Programs	Expenses	Program Revenues		Governmental Activities Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
General government	\$ 65,009	\$ 95	\$ -	\$ (64,914)
Public safety	18,813	-	297	(18,516)
Public works	20,486	4,506	-	(15,980)
Recreation and culture	900	-	-	(900)
Interest on long term debt	4,360	-	-	(4,360)
Total governmental activities	<u>\$ 109,568</u>	<u>\$ 4,601</u>	<u>\$ 297</u>	<u>\$ (104,670)</u>
General Revenues:				
Property taxes				115,515
State-shared revenues				49,851
Interest and investment earnings				5,436
Other				<u>2,590</u>
Total general revenues				<u>173,392</u>
Change in Net Assets				68,722
Net assets - beginning of year				<u>599,053</u>
Net assets - end of year				<u>\$ 667,775</u>

See accompanying notes

Klacking Township
Governmental Funds
Balance Sheet
March 31, 2005

	General Fund	Road Fund	Fire Fund	Total Governmental Funds
Assets				
Cash and investments	\$ 374,758	\$ 48,094	\$ 6,919	\$ 429,771
Accounts receivable	-	-	-	-
Due from other funds	8,150	-	-	8,150
Due From other governmental units	10,837	5,328	1,561	17,726
Total assets	<u>\$ 393,745</u>	<u>\$ 53,422</u>	<u>\$ 8,480</u>	<u>\$ 455,647</u>
Liabilities				
Accounts payable	\$ 859	\$ -	\$ 400	\$ 1,259
Accrued and other liabilities	592	-	-	592
Due to other funds	-	-	8,080	8,080
Due to other governments	-	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	<u>1,451</u>	<u>-</u>	<u>8,480</u>	<u>9,931</u>
Fund balances				
Unreserved:				
General Fund	392,294	-	-	392,294
Special Revenue Funds	-	53,422	-	53,422
Total fund balances	<u>392,294</u>	<u>53,422</u>	<u>-</u>	<u>445,716</u>
Total liabilities and fund balances	<u>\$ 393,745</u>	<u>\$ 53,422</u>	<u>\$ 8,480</u>	<u>\$ 455,647</u>
 Fund Balances - Total Governmental Funds				 \$ 445,716
Elimination of due to and due from governmental funds				
Due to				8,080
Due from				(8,080)
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial financial resources, and are not reported in the funds.				
The cost of capital assets is			\$ 378,670	
Accumulated depreciation is			<u>(25,687)</u>	
				352,983
Long term liabilities are not due and payable in the current period and are not reported in the fund				
Installment purchase				(206,539)
Accrued interest is not included as a liability in governmental funds				(1,277)
The Township has an equity interest in a joint venture. The investment is not reported in the funds.				76,892
 Net Assets of Governmental Activities				 \$ <u>667,775</u>

See accompanying notes

Klacking Township
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended March 31, 2005

	General Fund	Road Fund	Fire Fund	Total Governmental Funds
Revenues				
Taxes and penalties	\$ 45,132	\$ 54,977	\$ 15,406	\$ 115,515
State-shared revenues	52,216	-	-	52,216
Charges for services	2,141	-	-	2,141
Interest and rentals	5,004	518	9	5,531
Other	2,590	-	-	2,590
Total revenues	<u>107,083</u>	<u>55,495</u>	<u>15,415</u>	<u>177,993</u>
Expenditures				
Current:				
General government	62,642	-	-	62,642
Public safety	-	-	18,813	18,813
Public works	33,421	78,700	-	112,121
Recreation and culture	900	-	-	900
Capital outlay	245,697	-	-	245,697
Debt service:				
Principal retirement	21,917	-	-	21,917
Interest	3,083	-	-	3,083
Total expenditures	<u>367,660</u>	<u>78,700</u>	<u>18,813</u>	<u>465,173</u>
Excess of Revenue Over (under)				
Expenditures	(260,577)	(23,205)	(3,398)	(287,180)
Other Financing Sources (Uses)				
Transfers in (Note 4)	-	-	3,398	3,398
Transfers out (Note 4)	(3,398)	-	-	(3,398)
Bond Proceeds	228,456	-	-	228,456
Total other financing sources (uses)	<u>225,058</u>	<u>-</u>	<u>3,398</u>	<u>228,456</u>
Net Change in Fund Balances	(35,519)	(23,205)	-	(58,724)
Fund balances - Beginning of year	<u>427,813</u>	<u>76,627</u>	<u>-</u>	<u>504,440</u>
Fund balances - End of year	\$ <u><u>392,294</u></u>	\$ <u><u>53,422</u></u>	\$ <u><u>0</u></u>	\$ <u><u>445,716</u></u>

See accompanying notes

Klacking Township
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year ended March 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	(58,724)
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Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;
in the statement of activities these costs are allocated
over their estimated useful lives as depreciation.

Depreciation expense	\$ (4,317)
Capital Outlay	<u>339,282</u>

334,965

Accrued interest is recorded in the statement of activities
when incurred; it is not reported in governmental
fund until paid

(1,277)

Repayments of installment purchases principal is an expenditure
in the governmental funds, but not in the statement of
activities (where it reduces long-term debt)

21,917

Bond proceeds are not reported as financing sources on the
statement of activities

(228,456)

Income from joint venture is not recorded in the funds

297

Change in Net Assets of Governmental Activities

\$ 68,722

See accompanying notes

Klacking Township
Fiduciary Funds
Statement of Net Assets
March 31, 2005

	Trust Fund- Pension Fund	Agency Funds
Assets		
Cash	\$ -	\$ 70
Investments - at fair value	<u>43,553</u>	<u>-</u>
Total assets	43,553	<u><u>\$ 70</u></u>
Liabilities		
Due to other funds	-	70
Due to other governments	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u><u>\$ 70</u></u>
Net Assets - Held in Trust for Pension Benefits	<u><u>\$ 43,553</u></u>	

See accompanying notes

Klacking Township
Fiduciary Funds
Statement of Changes in Net Assets
Year ended March 31, 2005

	Trust Fund- Pension Fund
Additions	
Contributions	
Employer	\$ 3,061
Employee	-
Investment earnings	<u>318</u>
Total Additions	3,379
 Deductions	
Benefits	6,758
Administrative expenses	<u>736</u>
Total deductions	7,494
 Net decrease	(4,115)
 Net Assets Held in Trust for Pension Benefits	
Beginning of the year	<u>47,668</u>
End of the year	<u><u>\$ 43,553</u></u>

See accompanying notes

Klacking Township
Notes to Financial Statements
March 31, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Klacking Township ("the Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies used by the Township:

Reporting Entity

The Township is governed by an elected five member Township Board. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Township's reporting entity, and which organizations are legally separate, component units of the Township. Based on the application criteria, the Township does not contain any component units.

Government-wide and Fund Financial Statements

The Government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a certain function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Klacking Township
Notes to Financial Statements
March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

The Road Fund is used to record property tax revenue, interest earnings and other revenue restricted for use on Township roads.

The Fire Fund is used to record property tax revenue, interest earnings and other revenue restricted for fire protection purposes.

Additionally, the Township reports the following funds:

The Pension Trust Fund accounts for the activity of the Township defined contribution retirement plan, which accumulated resources for pension benefit payments to qualified employees.

The Tax Collection Fund accounts for property taxes collected and disbursed to other taxing authorities by the Township as required by law.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers for goods, services or privileges provided and (2) operating grants and contributions. General revenue includes all taxes.

Klackung Township
Notes to Financial Statements
March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between fund that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The taxpayers of the Township have their properties assessed as of December 31 and the related property taxes are levied and become a lien on December 1 for 100% of the taxes which are due February 28. The 2004 taxable value of the Township was \$19,474,505. The 2004 tax levy was 1.97850 mills for general operating purposes, 2.69930 mills for the Road Fund and .79130 for the Fire Fund, raising \$38,483 for general operating purposes, \$52,607 for roads and \$15,405 for fire protection purposes.

Inventories and Prepaid items - Inventories are not significant amounts at year end. Inventory is recorded as expenditures when purchased. Payments to vendors reflecting costs applicable to future fiscal years are recorded as prepaid items in both government wide and fund financial statements, if applicable.

Capital Assets - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. Infrastructure assets acquired prior to implementation of GASB 34 are not included in the financial statements.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 years
Buildings and additions	50 years
Vehicles	5 years
Office furnishings	5-20 years
Other equipment	5-20- years

Klacking Township
Notes to Financial Statements
March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences - There is no liability for compensated absences reported in the government-wide financial statements since no township employees are provided with sick or vacation pay benefits.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs are reported as other bond expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriating or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the Township's financial statements.

Accounting Change - Effective April 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided.

Capital assets in the governmental activities column of the statement of net assets includes assets totaling \$90,348 previously reported in the General Fixed Asset Account Group. Capital assets being depreciated at April 1, 2004 previously reported in the General Fixed Asset Account Group have been adjusted by \$10,454 to reflect historical cost of the Township's assets at that date.

The fund financial statements focus on major funds rather than fund types.

Klacking Township
Notes to Financial Statements
March 31, 2005

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township adopt its budgets by April 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits Townships to amend its budget during the year. During the year there were no amendments to the budgets.

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until the receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances are reappropriated in the next year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township incurred expenditure variances as follows:

<u>Fund and Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
<u>General Fund:</u>			
Public works	\$ 20,750	\$ 33,421	\$ 12,671
Capital outlay	50,000	245,697	195,697
Principal retirement	-	21,917	21,917
Interest	-	3,083	3,083

Note 3 - Deposits and Investments

At year-end the Township's deposits and investments were deposited in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Township Total</u>
Cash and cash equivalents	\$ 429,771	\$ 70	\$ 429,841
Investments	43,553	-	43,553
Total	<u>\$ 473,324</u>	<u>\$ 70</u>	<u>\$ 473,394</u>

The breakdown between deposits and investments for the Township is as follows:

Deposits (checking, savings and certificates of deposit)	\$ 429,841
Investments	43,553
	<u>\$ 473,394</u>

Klacking Township
Notes to Financial Statements
March 31, 2005

Note 3 - Deposits and Investments (Continued)

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township. State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Ogemaw County, Michigan. The Township is allowed to invest in checking, savings and certificates of deposit accounts. The Township's deposits are in accordance with statutory authority. At March 31, 2005, the Township has deposits with a carrying amount of \$429,841 and bank balance of \$432,362. Of the bank balance, \$372,193 is covered by federal deposit insurance and \$60,169 is uninsured.

The Township's investments at March 31, 2005 consisted of pension plan assets totaling \$43,553.

Note 4 - Receivables

There are no accounts receivable as of year-end for the Township's individual major funds and fiduciary funds.

Note 5 - Capital Assets

Capital assets activity of the Township's Governmental activities were as follows:

	Balance April 1, 2004	Additions	Deletions	Balance March 31, 2005
Capital assets not being depreciated:				
Land	\$ 14,175	\$ -	\$ -	\$ 14,175
Capital assets being depreciated:				
Infrastructure	-	93,585	-	93,585
Land improvements	12,630	3,776	-	16,406
Buildings	40,506	239,802	40,506	239,802
Furniture & equipment	12,583	2,119	-	14,702
Subtotal	<u>79,894</u>	<u>339,282</u>	<u>40,506</u>	<u>378,670</u>
Accumulated Depreciation				
Infrastructure	-	1,950	-	1,950
Land improvements	12,330	190	-	12,520
Buildings	40,506	1,220	40,506	1,220
Furniture & equipment	9,040	957	-	9,997
Subtotal	<u>61,876</u>	<u>4,317</u>	<u>40,506</u>	<u>25,687</u>
Net capital assets being depreciated	<u>18,018</u>	<u>334,965</u>	<u>-</u>	<u>352,983</u>
Governmental Activities Total Capital Assets net of Depreciation	<u>\$ 18,018</u>	<u>\$ 334,965</u>	<u>\$ 0</u>	<u>\$ 352,983</u>

Klackung Township
Notes to Financial Statements
March 31, 2005

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General Government	\$ 2,367
Public works	<u>1,950</u>
Total governmental activities	<u>\$ 4,317</u>

Note 6 - Receivables, Payables and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>		<u>Amount</u>
General Fund	\$ 8,150	General Fund	\$	-
Road Fund	-	Road Fund	-	-
Other Nonmajor Govern.	-	Other Nonmajor Govern.	8,080	-
Fiduciary Funds	-	Fiduciary Funds	70	-
Total	<u>\$ 8,150</u>	Total	<u>\$</u>	<u>8,150</u>

<u>Transfer In</u>		<u>Transfer Out</u>		
Fire Fund	<u>\$ 3,398</u>	General Fund	<u>\$</u>	<u>3,398</u>

Note 7 - Long-term Debt

The Township entered into an installment purchase agreement with DeShano Construction Company for the construction of a new Township hall. The installment purchase agreement was assigned to Chemical Bank and Trust Company. The installment purchase agreement is a general obligation of the Township.

The installment purchase agreement can be summarized as follows:

Installment purchase

Interest rate - 3.89% per annum

Rate to be adjusted every five years to a rate equal to the then current rate on the five (5)-year U.S. Treasury Note

Annual payments of \$15,230.40 plus interest, beginning February 1, 2005

Payable in full on February 1, 2019

Beginning balance	\$ -
Additions	228,456
Reductions	<u>(21,917)</u>
Ending balance	<u>\$ 206,539</u>
Due Within One Year	<u>\$ 15,230</u>

Klacking Township
Notes to Financial Statements
March 31, 2005

Note 7 - Long-term Debt (Continued)

INSTALLMENT PURCHASE

Annual debt service requirements to maturity for the Installment purchases are as follows:

Year Ended March 31,	Governmental Activities		
	Principal	Interest	Total
2006	\$ 15,230	\$ 8,034	\$ 23,264
2007	15,230	7,442	22,672
2008	15,230	6,849	22,079
2009	15,230	6,257	21,487
2010	15,230	5,665	20,895
2011-2015	76,150	19,436	95,586
2016-2019	54,239	4,884	59,123
Total	<u>\$ 206,539</u>	<u>\$ 58,567</u>	<u>\$ 265,106</u>

Note 8 - Risk Management

Klacking Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last three years.

Note 9 - Pension Plan

Klacking Township has a defined contribution plan for elected officials through Manulife. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of these contributions, and forfeitures of other participants benefits that may be allocated to such participant's account.

The Township pension plan agreement specifies which Township positions are covered by the plan. Contributions made by an employee and the Township vest immediately. An employee that leaves the employment of the Township is entitled to his or her account balance consisting of the employee and Township contributions, as well as earnings in the account. The Township is required to contribute an amount equal to 20% of the employee's gross earnings to the plan.

Klacking Township
Notes to Financial Statements
March 31, 2005

Note 9 - Pension Plan (Continued)

During the year, the Township's required and actual contributions amounted to \$ 3,797, which was 20% of its current year covered payroll . There were no voluntary employee contributions. Covered payroll was \$26,200. Total payroll was \$30,241. All elected officials are covered by the plan.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees. The plan held no securities of the Township or other related parties during the year or as the close of the fiscal year.

Note 10 - Joint Area Fire Board

Klacking Township appropriates funds for fire protection and provides fire department services through the Rose City Area Fire Board. The Fire Board serves the Townships of Cumming, Klacking and Rose, as well as the City of Rose City.

The following financial information of the fire board, obtained from the Fire Board Secretary, is as of December 31, 2004:

Total Assets	\$ 138,019	Total Revenues	\$ 106,879
Total Liabilities	24,212	Total Expenditures	78,322
Total Equity	113,807	Increase in fund balance	28,557

The net assets of the Fire Board as of December 31, 2004 were \$368,369. The Township's equity interest in the Fire Board is \$76,892.

The most recent biennial audit was as of December 31, 2004. A copy of the financial statements may be obtained from the Treasurer of the Rose City Area Fire Board at the Fire hall in Rose City, Michigan.

Required Supplemental Information

Klackung Township
Budgetary Comparison Schedule - General Fund
Year ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	<u>\$ 428,054</u>	<u>\$ 428,054</u>	<u>\$ 427,813</u>	<u>\$ (241)</u>
Resources (Inflows)				
Taxes and fees	45,150	45,150	45,132	(18)
Licenses and permits	-	-	-	-
State-shared revenues	45,082	45,082	52,216	7,134
Charges for services	3,000	3,000	2,141	(859)
Interest and rentals	4,150	4,150	5,004	854
Other	50	50	2,590	2,540
Proceeds from long term debt	-	-	228,456	228,456
Amounts available for appropriation	<u>97,432</u>	<u>97,432</u>	<u>335,539</u>	<u>238,107</u>
Charges to Appropriations (Outflows)				
General government	63,117	63,117	62,642	(475)
Public safety	-	-	-	-
Public works	20,750	20,750	33,421	12,671
Recreation and culture	1,400	1,400	900	(500)
Capital outlay	50,000	50,000	245,697	195,697
Debt service				
Principal retirement	-	-	21,917	21,917
Interest	-	-	3,083	3,083
Transfer to other funds	4,000	4,000	3,398	(602)
Total charges to appropriations	<u>139,267</u>	<u>139,267</u>	<u>371,058</u>	<u>231,791</u>
Fund Balance - end of year	<u>\$ 386,219</u>	<u>\$ 386,219</u>	<u>\$ 392,294</u>	<u>\$ 6,075</u>

Klacking Township
Budgetary Comparison Schedule - Road Fund
Year ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 73,123	\$ 73,123	\$ 76,627	\$ 3,504
Resources (Inflows)				
Taxes and fees	52,500	52,500	54,977	2,477
Interest and rentals	400	400	518	118
Other	-	-	-	-
Amounts available for appropriation	<u>52,900</u>	<u>52,900</u>	<u>55,495</u>	<u>2,595</u>
Charges to Appropriations (Outflows)				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	108,000	108,000	78,700	(29,300)
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total charges to appropriations	<u>108,000</u>	<u>108,000</u>	<u>78,700</u>	<u>(29,300)</u>
Fund Balance - end of year	\$ <u>18,023</u>	\$ <u>18,023</u>	\$ <u>53,422</u>	\$ <u>35,399</u>

Klacking Township
Budgetary Comparison Schedule - Fire Fund
Year ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ (18)	\$ (18)	\$ -	\$ 13
Resources (Inflows)				
Taxes and fees	15,400	15,400	15,406	6
Charges for services	1,000	1,000	-	(1,000)
Interest and rentals	15	15	9	(6)
Transfer from other funds	4,000	4,000	3,398	(602)
Amounts available for appropriation	<u>20,415</u>	<u>20,415</u>	<u>18,813</u>	<u>(1,602)</u>
Charges to Appropriations (Outflows)				
General government	-	-	-	-
Public safety	19,000	19,000	18,813	(187)
Public works	-	-	-	-
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total charges to appropriations	<u>19,000</u>	<u>19,000</u>	<u>18,813</u>	<u>(187)</u>
Fund Balance - end of year	\$ <u>1,397</u>	\$ <u>1,397</u>	\$ <u>0</u>	\$ <u>(1,397)</u>